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September 5, 2008

Mary Cottrell, Secretary
Department of Public Utilities
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 04-39

Dear Secretary Cottrell:

Bay State Gas Company ("Bay State" or the "Company") submits this letter in response to the comments filed by the Office of the Attorney General on August 25, 2008 (the "Comments") with respect to the Company's August 15, 2008 Petition for Expanded Funding for Existing Residential Energy Efficiency Programs and Recovery of Energy Efficiency Related Costs for the Period Commencing September 1 and Ending December 31, 2009 (the "August 15 Filing"). The Company writes to clarify certain issues raised in the Comments. The Company is proud of the collaborative energy efficiency effort it has been operating pursuant to the Department-approved settlement in Bay State Gas Company, D.T.E. 04-39 (2004) (the "D.T.E. 04-39 Settlement") and is willing to work with interested parties, to ensure that its August 15, 2008 proposal is clearly understood.

In overview, the Attorney General indicates her belief that the Company should only address residential matters through the upcoming heating season at this time and that, in several instances, the Company has not provided the full information requested by the Department in its letter of July 25, 2008 opening this proceeding (the "July 25 Letter"). The Company addresses each of these matters below.

Bay State's Comprehensive and Coordinated Request to Address Residential and C&I Matters Through December 31, 2009.

In its August 15 Filing, the Company has sought to address several important goals in an administratively efficient manner, based upon its best judgment after informal discussions with a number of interested parties. In particular, as the Attorney General notes in her comments, the Company has proposed that, in addition to increasing funding for residential heating programs for the upcoming heating season, Bay State also proposes to increase funding for commercial and industrial ("C&I") customers and that both its residential and C&I programs be allowed to operate through December 31, 2009 at such expanded funding levels. As noted in Mr. Buchler's testimony, Bay State is seeking to take advantage of the unique opportunity accorded by the Department's request for expanded residential funding for the upcoming heating season to

address other calendar year 2009 energy efficiency matters in a comprehensive and coordinated manner that addresses both the Department's July 25 Letter requirement of a residential filing for the upcoming heating season and its August 7, 2008 requirement that Bay State submit a proposal for all residential and C&I programs to operate through 2009. See D. Buchler Testimony at pp. 4-8. As noted in Mr. Buchler's cover letter, Bay State's filing "seeks to expand its [C&I] efforts in addition to expanding funding for residential heating programs. In this regard, the Company's filing. . . directly follows up on the Department's August 7, 2008 request for proposed energy efficiency plans for effect during the interim period after the April 30, 2009 expiration of the D.T.E. 04-39 pre-approval period and before January 1, 2010 (which is the date that new, three-year energy efficiency programs are to be launched in accordance with Chapter 169 of the Acts of 2008, an Act Relative to Green Communities (the "Act")). Bay State's Petition is consistent with established Department practice and will allow for the offering of well-operating, pre-approved programs -- without interruption in program delivery -- and providing a longer horizon for proposed program changes to take effect as the Company works in 2009 with interested parties to develop its energy efficiency plan for effect on January 1, 2010 as mandated by the Act."

The Company notes that many of the small C&I and multifamily building owners addressed by the August 15, 2008 Filing are facing the same economic impact of higher energy costs this winter heating season as are faced by residential customers. These same small C&I and multifamily building owners provide goods, services and shelter to the Company's residential customers and, in a number of instances, reside themselves in the towns where they operate their businesses. As such, they need affordable heating bills so that they may continue to stay in business, provide jobs, sustain economic stability, and contribute to the tax base in the cities and towns served by the Company.

The Company has elected to take the further step of recognizing that many municipal budgets are rapidly being depleted due to higher energy costs. As such, the Company intends to explicitly target this class of customer if the Company's August 15, 2008 request for additional funding is approved.

Bay State is confident that the Department appreciates the Company's proposal as a means to address several outstanding directives in a comprehensive and coordinated manner, after discussion with interested parties. The Company believes that its approach offers benefits to all of its customers: increased funding in light of rising energy costs; enhanced certainty for planning purposes; reasonable billing impacts; and decreased administrative burdens. If the Department elects to address only residential matters for the upcoming heating season at this time, Bay State will of course abide by that direction and increase residential funding for the upcoming heating season at the proportionate levels set forth in its August 15 Filing, or as otherwise ordered by the Department. Bay State, however, believes that its customers are best served by approval of the full expanded effort set forth in August 15 Filing.

The Company has been Fully Responsive to the Department's July 25 Letter.

In order to avoid any misunderstanding, Bay State provides the following summary of each of the eight items requested in the Department's July 25 letter and where it is directly addressed in the Company's August 15 Filing.¹

1. The energy efficiency programs that are targeted at residential heating end-uses. As set forth in Attachment A, Exhibit 5 of the August 15 Filing, the Company operates Residential and Low-Income Programs pursuant to the D.T.E. 04-39 Settlement. See also, D. Buchler testimony at pp 5-6. Both programs target heating usage and there does not appear to be a controversy on this item.

2. The additional dollars the Company projects it can spend in a cost-effective manner. Exhibit 5 of Attachment A to Mr. Buchler's testimony sets forth the additional dollars the Company projects to spend in a cost-effective manner through December 31, 2009. Mr. Buchler expressly testified "that the proposed increase represents an annualized increase of twenty four percent (24%) of the residential and low-income budget set forth in Company's June 30, 2008 Annual Report and thirty two percent (32%) of the C&I budget." See D. Buchler Testimony at p. 11. The Company expressed this additional amount as a percentage as it, and other filers, believed that format to be most helpful and responsive to the Department. In order to address the Attorney General's comment directly, this percentage equates to an overall annualized increase of \$701,000 in residential spending, of which \$212,000 is to be allocated to the Company's low-income program and \$108,000 to equipment rebate programs offered through the GasNetworks[®] collaborative. The Company has also requested the flexibility to spend in excess of this amount by up to 10% without the need for former Department approval. See D. Buchler Testimony at p.p. 16-17. All administrative expenses are separately detailed in Exhibit 5 in the format developed in the D.T.E 04-39 Settlement. For the avoidance of doubt, if the Company's request is approved, it would endeavor to expend such additional \$701,000 by the end of the program year ending April 30, 2009 (which the Company would view as the heating season for purposes of the Department's July 25 Letter) and continue to expend at such a proportionally increased level through the end of calendar year 2009 (in response to the Department's August 7, 2008 requirements.)

3. The constraints that limit the additional dollars the Company projects it could spend cost-effectively. Mr. Buchler explicitly testified: "As discussed at the July 29, 2008 Technical Conference, the Company notes that achievable savings are necessarily **limited by constraints** in program delivery infrastructure (e.g. the level of qualified contractors in the field) and the need to maintain quality and safety controls for an expanded level of program activity." See D. Buchler testimony at p. 15. These program delivery infrastructure limits remain the largest constraint on program expansion for Bay State.

¹ Pages 17-18 of Mr. Buchler's testimony also provide an explicit recital of each of these eight items and how it is addressed in the Company's filing.

4. The additional number of residential customers that will be served. Mr. Buchler testified: "As reflected in Attachment A, Schedule 5, the Company projects increasing participation (as opposed to spending) in its residential weatherization and low-income programs by 20%." Testimony at p. 18. The Company expressed this additional amount as a percentage as it, and other filers, believed that format to be most helpful and responsive to the Department. To follow up and directly respond to the Attorney General's comment, this percentage equates to approximately 191 additional residential and low-income heating customers per year, as compared with the June 30, 2008 budget. Similar to Item 2 above, the Company would endeavor to serve this many additional customers for the program year ending April 30, 2009, and continue at such proportional levels throughout 2009.

5. The additional kilowatt-hour, kilowatt, therms or mmbtu savings that will be achieved. Mr. Buchler testified: "Energy savings achieved should be increased by approximately 20%." See D. Buchler testimony at p. 12. Again, the Company expressed this additional amount as a percentage as it, and others, believed that format to be most helpful and responsive to the Department. To follow up and directly respond to the Attorney General's comment, this percentage equates to approximately 77,500 of additional annual therm savings for residential and low-income heating customers. Similar to Items 2 and 3 above, the Company would endeavor to achieve these additional therm savings for the program year ending April 30, 2009 and seek to continue achieving savings at such proportional levels throughout 2009.

6. The dollar savings on monthly bills that additional participants will be expected to realize. See D. Buchler testimony at p. 17. There appears to be no controversy on this item, which shows estimated savings of \$332 per year (\$27.67 per month on average).

7. The effect on the cost-effectiveness of the applicable programs. As reviewed at the technical session, the Department did not require that potentially expensive new cost-effectiveness screening runs be performed. Rather, in its July 25 Letter, the Department required that the effect on cost-effectiveness of the proposals be expressly addressed. Mr. Buchler explicitly addresses cost-effectiveness at p. 14-16 of his testimony and how the Company's proposal maintains program cost-effectiveness.² In sum, the Company respectfully believes it has fully responded to the Department's requirements in an administratively efficient manner, consistent with the discussion during the technical session that avoids the expense of a new screening being performed.

8. The Company's proposed mechanism for recovery of incremental expenditures. See Mr. Buchler testimony at pp. 12-13. There does not appear to be any controversy on this issue.

² As set forth in Attachment A, Exhibit 6, Residential Program cost-effectiveness as of June 30, 2008 was 3.54 and C&I Program cost-effectiveness was 4.67. As Mr. Buchler testified, under no rational set of assumptions would this ratio be reduced to less than 1.0 based on the Company's proposal.

In summary, Bay State respectfully submits that the August 15 Filing addresses the Department's July 25 Letter in a comprehensive, good faith and direct manner.

RCS and Design Enhancement Matters. Similar to the Cape Light Compact, the Company supports and endorses the enhancements to the RCS program developed in collaboration with the DOER. Additionally, the Company emphasizes that, under the D.T.E. 04-39 Settlement, it has the flexibility to refine or enhance programs and reallocate monies from measures and programs without prior Department approval provided that such refinement or enhancement does not exceed 25% of the applicable budget. See D.T.E. 04-39 Settlement at Section II.C. and Section II.F. Consistent with these provisions, Attachment A, Exhibits 2, 3 and 4 of the August 15 Filing reflect the enhancements scheduled for the upcoming program year, with the most up-to-date schedule of enhancements, in the format developed in the D.T.E. 04-39 Settlement and used successfully for nearly 5 years. The Company has included these exhibits with the instant filing in order to give the Department and interested parties the clearest possible view of the enhanced efforts planned for the upcoming Heating Season and through 2009. All such efforts are consistent with the reasonable flexibility accorded to the Company in the D.T.E. 04-39 Settlement. Because the Company is proposing an increase in C&I funding of 32%, however, it has requested the Department's approval of such increase in its August 15, 2008 Filing.

In closing, Bay State would like to emphasize that it is willing to work cooperatively with all interested parties to ensure that all of its customers have the tools to save energy in the upcoming heating season and beyond. Should you have any questions in this matter, please do not hesitate to contact me at (508) 836-7394 or Derek Buchler at (508) 836-7344.

Very truly yours,



Patricia M. French

cc: Service List